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CONSUMER ALERT

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ATTORNEY GENERAL URGES STUDENTS TO SHOP AROUND BEFORE SECURING COLLEGE LOANS

Tennessee Attorney General Bob Cooper is urging everyone planning to attend college or a vocational school to do their homework before obtaining a student loan. Allegations about questionable practices within the student lending industry have arisen in some states concerning schools having "preferred lender" lists.

"How to pay for college is one of the biggest financial decisions either a parent or student will make in their lifetimes," said Attorney General Cooper. "Students should shop around for the most favorable terms before committing to any loan."

CollegeBoard.com reports costs for a college degree can exceed \$50,000 at a public college and \$125,000 at some private schools. The costs, which have increased by 50 percent in some cases over the past five years, have led to record levels of borrowing. It is estimated two-thirds of all students will have to borrow money to afford their education.

Students will borrow up to \$85 billion this year, an increase of almost 30 percent since 2001, according to a National Postsecondary Student Aid Study. Almost 20 percent of this \$85 billion comes from private lenders who have an easier time charging higher interest rates.

"We encourage consumers to compare rates and to read the fine print when they are in need of a loan to pay for their children's education," said Mary Clement, Director of the Division of Consumer Affairs. "It is in the consumer's best interest to ask as many questions as possible; do your research and seek advice and referrals from friends and others who have experience in navigating the student loan process."

Attorney General Cooper and other attorneys general across the country are gathering facts regarding allegations that have been raised about the student lending industry. For example, a lender may pay an institution an amount equal to a half percent of the amount they lend to students at that institution.

Other allegations have surfaced that some lenders have provided trips to exotic destinations or that loans may be delayed if a preferred lender is not used. In other instances, colleges simply discourage or prohibit students from taking out loans from particular lenders not on their list.

Most but not all schools are concerned about their students' best interests. Students should comparison shop with lenders not found on a given school's "preferred lender" list to find the most competitive rates. A "preferred lender" might not necessarily mean that the college has fully reviewed the offers to determine which lender provide the best interest rates and terms for the student. A small number of schools may have financial incentives such as bonuses or profit sharing agreements to steer students and parents to that lender. Other schools make preferred lending decisions based on whether lenders provide the most convenient service to the schools.

When taking out student loans, General Cooper and Director Clement suggest the following tips:

- *Make sure you exhaust all potential scholarships and grants available before considering private or alternative loans. Generally speaking, unless you have excellent credit, these loans are likely to be more expensive because they are not subject to the interest rate caps that federally subsidized loans are.

- *Remember, you can choose your own lender. Students and their parents should shop around for the best rates and terms, and be wary of promises of a bonus credit during the repayment period.

- *Keep all your records relating to any student loans you apply for or receive in a secure place. In many cases, the advertised rates do not appear in any of the actual loan documents that you sign.

- *Read the fine print and ask tough questions of potential lenders and your financial aid office. Do not be afraid to ask about anything on the applications or loan paperwork that you do not understand. Unlike with other type of loans, if you get in over your head, student loans are usually not subject to bankruptcy protection.

- *If your school offers you a "signature" loan, which is a loan containing the name of the school, you still need to determine if the loan is in your best interest. In many cases, these loans will be sold to a lender and you will ultimately be making payments to a lender or servicer, and not to the school.

To file a complaint regarding a college, student loan lender, or any business that has committed an unfair or deceptive act, contact the Tennessee Division of Consumer Affairs at www.state.tn.us/consumer or by calling (615) 741-4737 or (800) 342-8385 (toll free in Tennessee).